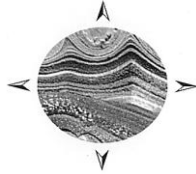


**MALACHITE RESOURCES LIMITED**

**A.B.N. 86 075 613 268**



**CONSOLIDATED FINANCIAL REPORT**

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

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This financial report is for the consolidated entity consisting of Malachite Resources Limited and its subsidiaries. The financial report is presented in Australian currency.

Malachite Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Malachite Resources Limited  
Suite 1502, Tower B  
799 Pacific Highway  
Chatswood NSW 2067.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations in the directors' report .

The financial report was authorised for issue by the directors on 27 September 2011. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at a minimum cost to the company. All ASX releases, financial reports and other information are available on our website: [www.malachite.com.au](http://www.malachite.com.au).

**MALACHITE RESOURCES LIMITED**

**Annual Consolidated Financial Report  
For The Financial Year Ended  
30 June 2011**

**DIRECTORS' REPORT**

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Malachite Resources Limited and the entities it controlled at the end of, or during, the year ended 30 June 2011.

**DIRECTORS**

The names and positions of the directors of the consolidated entity during the financial year and up to the date of this report are:

**Garry George Lowder, BSc (Hons), PhD, FAusIMM, MAICD**

Executive Chairman, Age 67

Geologist with over 40 years Australian and international experience in both the public and private sectors. Founded Malachite Resources in 1997, after spending four years as Director General of Mineral Resources in NSW. Previously held senior positions in several Australian and overseas mining companies. Has a strong record of success in mineral exploration, mining, corporate management and government administration, much of it focussed on NSW, with key roles in the discovery of the Northparkes Copper and Cowl Gold deposits. Non-executive director of ASX-listed Straits Resources Limited (retired 1 July 2011). Former director of Macmin Silver Limited (resigned 5 November 2008). Graduate of the University of Sydney (BSc Hons), the University of California at Berkeley (PhD) and the Advanced Management Program at the Harvard Business School.

**Russell Matthew Devenish Meares, BSc (Hons), MSc, FAusIMM, MAIG, GAICD**

Non-Executive Director, Age 64

Geologist with over 35 years experience in mineral exploration and mining. Has worked extensively in both technical and management roles in Australia, Asia and the South West Pacific. Experience ranges from project generation through to ore reserve estimation and economic evaluation. Has played key roles in the discovery of several ore deposits in Australia, Papua New Guinea and Fiji. Was the consolidated entity's exploration manager from 1997 to 2010. Graduate of University of NSW (BSc Hons) and James Cook University of North Queensland (MSc) and Company Directors' course of Australian Institute of Company Directors.

**Warren John Staude, BSc, MSc, MAusIMM, F Fin, MAICD (resigned 28/02/11)**

Non-Executive Director, Age 68

Has over 45 years professional experience in the mining, exploration and resource finance industries. Has worked in Government, in industry, as a private consultant and on the academic staff at Macquarie University. Spent a number of years with the AMP Society's resource investment team, where he was involved in evaluating the operational and financial performance of numerous resource operations. Also spent some time in the stockbroking industry, before joining GIO Australia Asset Management, where he managed GIO's listed and direct resource equity investments in Australia and internationally. He is currently a non-executive director of Frontier Resources Limited, Eagle Eye Metals Ltd, Aphrodite Gold Ltd and Stonehenge Metals Ltd, all ASX-listed companies. In the past three years was also a director of Seafloor Resources Ltd, Central West Gold NL, Excelsior Gold Ltd and Malachite Resources Ltd. Graduate of University of Sydney (BSc), Macquarie University (MSc) and holds a Graduate Diploma from the Securities Institute of Australia and member of the Joint Ore Reserves Committee.

**Denis M. O'Neill BSc (App. Geol.), MAusIMM (resigned 28/02/11)**

Non-Executive Director, Age 61

Geologist with 35 years professional experience in mineral exploration and mining, both in Australia and abroad. Has worked in technical and management roles that include 14 years with Macmin Silver Ltd, where he was a Director. Four years as Chief Geologist for the Delta Gold Group of Companies in Australia and 7 years directing exploration projects in Italy, Ireland and the United Arab Emirates for Noranda Mines Ltd. Associated with the discovery of the "Reward" and "Highway" VHMS ore bodies (Charters Towers) earlier in his career and more recently the "Twin Hills" silver deposit at Texas, NSW. Graduate of the University of NSW (BSc in Applied Geology).

**Roy M. Randall B.Com., LL.B.**

Non-executive Director Age 75

Roy Randall is a former partner of the Sydney office of Stikeman, Elliott, Canada's pre-eminent international law firm. Prior to joining Stikeman, Elliott in early 1997 he was a partner at Freehill Hollingdale and Page in Sydney. Roy has more than 35 years broad practical experience in many areas of corporate legal practice and has also worked as a merchant banker. His extensive legal experience has extended to the areas of natural resources, structuring international transactions and infrastructure development. He has represented both issuers and underwriters in connection with initial public offerings for mining companies and advised on takeovers in the mining sector.

**James Dean ACIP (appointed 10/02/2011)**

Non-Executive Director, Age 51

Corporate Advisor and Professional Investor with over 25 years professional experience in the finance industry and investment in mining, construction equipment, property development, feature film and biotech. Most experience has been related to evaluating the operational and financial performance of numerous businesses and then aptly negotiating and matching risk profiles with investment criteria. For more than 20 years he has held fiduciary positions with regard to shareholders and beneficiaries of various investment vehicles. Extensively travelled and possesses a worldwide network of business collaborators. Of particular benefit to the Board of Malachite is his first-hand knowledge of the "Lorena" gold mine and surrounding area gained from being a significant shareholder in that mine since its rebirth in 2009.

**Joel Bidois (appointed 10/02/11)  
(resigned 11/07/11)**

Non-Executive Director

**MALACHITE RESOURCES LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS (CONTINUED)**

The directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

In the last three years none of the directors have held directorships in public companies other than those listed individually above.

**COMPANY SECRETARY**

**Andrew J. Cooke LLB, FAICS**

Lawyer with over 20 years experience in law, corporate finance and as a Company Secretary of listed resource companies. Responsible for corporate administration together with stock exchange and regulatory compliance.

**DIRECTORS' MEETINGS**

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

|  | Board of Directors |          | Audit Committee |          | Remuneration Committee |          |
|--|--------------------|----------|-----------------|----------|------------------------|----------|
|  | Held               | Attended | Held            | Attended | Held                   | Attended |
| Dr Garry G Lowder  | 17                 | 17       | -               | -        | -                      | -        |
| Mr Russell MD Meares                                       | 17                 | 16       | -               | -        | -                      | -        |
| Mr Denis M O'Neill (resigned 28/02/11)                     | 10                 | 9        | -               | -        | 1                      | 1        |
| Mr Warren J Staude (resigned 28/02/11)                     | 10                 | 10       | 3               | 3        | -                      | -        |
| Mr Roy M. Randall  | 17                 | 17       | 4               | 4        | 1                      | 1        |
| Mr James Dean (appointed 10/02/11)                         | 7                  | 7        | 1               | 1        | -                      | -        |
| Mr Joel Bidois (appointed 10/02/11)<br>(resigned 11/07/11) | 7                  | 7        | -               | -        | -                      | -        |

**DIRECTORS' INTERESTS**

|  | Ordinary Shares |            | Options   |          | Class B Options |          |
|--|-----------------|------------|-----------|----------|-----------------|----------|
|  | Direct          | Indirect   | Direct    | Indirect | Direct          | Indirect |
| Dr Garry G Lowder  | -               | 7,181,244  | 7,250,000 | -        | -               | -        |
| Mr Russell MD Meares                                       | -               | 1,140,417  | 5,000,000 | -        | -               | -        |
| Mr Denis M O'Neill (resigned 28/02/11)                     | -               | -          | -         | -        | -               | -        |
| Mr Warren J Staude (resigned 28/02/11)                     | 90,000          | -          | -         | -        | -               | -        |
| Mr Roy M. Randall  | -               | 2,481,753  | 950,000   | -        | -               | -        |
| Mr James Dean (appointed 10/02/11)                         | -               | 7,936,508  | -         | -        | -               | 1        |
| Mr Joel Bidois (appointed 10/02/11)<br>(resigned 11/07/11) | -               | 82,781,905 | -         | -        | -               | 1        |

Full details of options issued are contained in Note 16 and 30.

**PRINCIPAL ACTIVITIES**

The principal activity of the consolidated entity during the financial year was exploration for economic deposits of gold, silver, copper, tin and other minerals.

No significant changes in the nature of the principal activities occurred during the financial year.

**OPERATING RESULTS**

The results of the operations of the consolidated entity during the financial year were as follows:

|                       | 2011        | 2010        |
|-----------------------|-------------|-------------|
|                       | \$          | \$          |
| Loss after income tax | (1,722,663) | (4,118,113) |

**DIVIDENDS**

No dividends have been paid or declared since the start of the financial year. The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2011 (2010: Nil).

## MALACHITE RESOURCES LIMITED

### DIRECTORS' REPORT (CONTINUED)

#### REVIEW OF OPERATIONS

Over the past year the Group's business activities have been dominated by the purchase of the Lorena Gold Project, located near Cloncurry in northwest Queensland. Following comprehensive due diligence investigations, which included some verification drilling and a review by the Group's technical consultants, a Share Purchase Agreement was signed on 29 September 2010. This agreement provided that, at completion, all of the issued shares of Volga Elderberry Pty. Limited, owner of mining lease ML7147, and associated assets, including several tenement applications, and collectively comprising the Lorena Gold Project, would be acquired by the Group. The consideration for this purchase was the issue to the vendors of 350,000,000 fully paid ordinary shares, 14 Class A Options and 14 Class B Options in Malachite Resources Limited and completion took place on 10 February 2011. Since completion of the Lorena purchase five additional mining leases surrounding ML7147 have been granted, as well as one of three pending Exploration Permit for Minerals Applications, considerably enhancing the value of the project.

When acquired the Lorena Gold Project included about 56,000 ounces of gold in a measured mineral resource [177,800 tonnes grading 9.8g/t Au], together with around 22,000 ounces of gold in an inferred resource [95,000 tonnes grading 7.2g/t Au]. Shortly after completion, and ahead of grant of the five additional mining leases referred to above, the Group undertook an initial drilling program, successfully generating infill information within the existing resource. Those results confirmed a southeasterly plunge for the main high grade core of the ore body, which was shown to be open at depth below about 90m. Drilling below that level was not possible at that time because, prior to grant of the additional mining leases, there was insufficient space within ML7147 to be able to position drill collars appropriately.

A new program of drilling began in August, 2011, this time being able to utilise drill sites on the newly granted ML90192, adjoining ML7147, thus allowing appropriate testing of the Lorena deposit to greater depths.

Apart from Lorena, the Group's activities have been relatively subdued. Some drilling was conducted at the Conrad Silver Project, located in northern New South Wales, where work was concentrated within the Princess Shoot, with encouraging results, such as drill hole CMDD113, which intersected 1.6m @ 819g/t Ag, 0.59% Cu, 0.71% Sn and 8.35% Pb. Later in the period, the Group initiated mining scoping studies of the Conrad project, with a view to gaining a preliminary understanding of possible mining methods and costs for a future operation at Conrad. This work is being conducted for the Group by a recognised mining engineering consultancy.

Significant new results were also obtained at the Pikedale project, located near Stanthorpe in southern Queensland, where a substantial area of geochemically anomalous ironstone outcrops has been mapped at a prospect known as "Lickhole". The ironstone anomalous area was subsequently surveyed using the induced polarisation geophysical technique, which detected two well defined chargeability highs underlying the surface ironstone outcrops. These are interpreted as likely to reflect accumulations of disseminated sulphide mineralisation and as such represent attractive drill targets; drilling is planned for the 2011-2012 year.

Only relatively minor field activities were carried out at the Group's other projects, in view of the strong focus on Lorena. Each of the Group's interests at Tooloom (gold), Tingha (tin/base metals/gold) and Rivertree (silver/base metals) have been maintained during the year, with a view to additional work in the future, while the tenement at Kings Gap has been relinquished. The Group's interest in the Elsmore (tin) tenements has been maintained but is subject to an option to purchase held by Elsmore Resources Limited; this option expires on 27 November 2011.

#### GOING CONCERN

On 10 February 2011 the Group completed the acquisition of Volga Elderberry Pty Limited ("VEPL") which owns the Lorena Gold Project. This acquisition is expected to greatly enhance the Group's transition from junior explorer to emerging miner.

Following the acquisition of VEPL, the Group initiated a series of fund raisings to carry out exploration programs at Lorena aimed at increasing the mineral resources and to continue activities at its other projects including the Conrad Silver Project:

- On 2 September 2011, a pro rata, renounceable rights issue of one new share and one new option for every 4 shares held at 15 September 2011 was announced to the market to raise a net amount of approximately \$2,400,000. The amount of approximately \$3,500,000 is reduced by converting loans amounting to \$745,190 (\$695,000 at 30 June 2011) received from directors, former directors and the CEO of the Group into the rights issue, and reduced by raising costs estimated at \$350,000. The closing date for the rights issue is 6 October 2011. The rights issue is fully underwritten by Patersons Securities Limited. The funds raised will be applied to meet the ongoing commitments of the group.
- On 29 July 2011 and 29 August 2011 the Group entered into Convertible Note Subscription Agreements to the total value of \$1,000,000. These funds have been utilised to fund the ongoing drilling program at Lorena. The maturity date of the notes is 12 months from the date of the issue date of the respective notes being 5 August 2012 and 1 September 2012. Each of the 10 notes may (at the Note Holder's election) be converted into shares prior to the maturity date or are redeemable in cash upon maturity (with cash payment required to be made within 3 months after the maturity date of the notes).
- On 31 May 2011, the group entered into an Option and Purchase Agreement for the sale of 100% of its interest in the Elsmore tenements through a series of staged payments over time which may generate up to \$1,350,000 if the potential buyer proceeds to production of tin from the tenements.

Consistent with the nature of the Group's activities and its ongoing investment of funds into exploration projects the Group has experienced operating losses of \$1,722,663 and negative cash flows from operations of \$3,147,793 during the year ended 30 June 2011. As at 30 June 2011, the Group also has a working capital deficiency of \$1,038,739, which includes \$735,500 of loans of which \$695,000 was raised from directors, former directors and the CEO of the Group with the intention that those loans are to be converted into equity and not repaid, and \$40,500 of loans from directors of the Group which are expected to be converted into equity pursuant to the March 2011 Share Placement upon Shareholder approval.

The continuing viability of the Group and its ability to continue as a going concern and meet its commitments as and when they fall due is dependent upon the Group being successful in:

- raising additional funding through various means which may include the following:
  - the completion of the rights issue described above,
  - additional placement once the Group has refreshed its 15% capacity which is expected to occur at the next Annual General Meeting in November 2011,
  - the undertaking of further capital raising such as a shareholder approved placement,
  - further share purchase plan,
  - the completion of the sale of the Group's interest in the Elsmore tenements,
  - entering into potential joint venture arrangements on its projects, other than Lorena,
  - the potential to raise up to \$12,700,000 in June 2012 upon the exercise of the options issued under the rights issue,
  - the conversion of the convertible notes into equity on or before maturity.

## MALACHITE RESOURCES LIMITED

### DIRECTORS' REPORT (CONTINUED)

#### GOING CONCERN (CONTINUED)

- reducing materially, if required, the Group's ongoing operating costs, as it has done from time to time in the past, to suit available financial resources and the timing of anticipated new capital raisings. All of the Group's exploration and drilling programs are capable of being scaled back at any point in time to ensure that expenditure matches currently available funding.

As a result of these matters, there is a material uncertainty whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The Group has a successful track record over many years of raising new capital from both existing shareholders and strategic investors. The Group successfully raised \$343,125 from a share purchase plan undertaken in December 2010 and \$657,375 by way of a placement in March 2011. Furthermore, as it has been demonstrated through the implementation of the \$1,000,000 convertible notes and the implementation of the \$3,500,000 (approximately) rights issue, the directors believe that the new Lorena Gold project enhances the ability of the Group to raise new capital provided satisfactory exploration results are achieved at Lorena.

On that basis the directors believe that the Group will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2011. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

#### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

2011

\$

Significant changes in the state of affairs of the Group during the financial year were as follows:

(a) An increase in contributed equity of \$23,613,039 (from \$27,474,702 to \$51,087,741) as a result of:

|  |  |            |
|--|--|------------|
| Issue of 666,667 shares @ 7.5 cents    | Convertible Note interest payable in shares to Nanyang Mining Resources Investment Pty Ltd ("Nanyang") | 50,000     |
| Pursuant to Share Purchase Plan        | 4,575,000 shares at 7.5 cents  | 343,125    |
| Issued 350,000,000 @ 6 cents           | Consideration for acquisition of Lorena Gold Project   | 21,000,000 |
| Issued 14 Class A Options              | Consideration for acquisition of Lorena Gold Project   | 255,100    |
| Issued 14 Class B Options              | Consideration for acquisition of Lorena Gold Project   | 274,126    |
| Pursuant to Share Placement Issue of   | 6,900,000 shares @ 7.5 cents   | 517,500    |
| Pursuant to Share Placement Issue of   | 1,865,000 shares @ 7.5 cents   | 139,875    |
| Issue of 16,406,250 shares @ 6.4 cents | Convertible note principal and interest payable in shares to Nanyang                                   | 1,050,000  |
|  |  | <hr/>      |
|  |  | 23,629,726 |
| Less:                                  | Transaction costs relating to share issues   | (16,687)   |
|  |  | <hr/>      |
|  | Net increase in share capital  | 23,613,039 |

#### MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since the end of the Financial Year the following matters have arisen which may significantly affect the operations of the Group:

1. The Group identified the Copperhead Prospect which contains relatively high gold grades at the Lorena Gold Project;
2. The Group issued 10 Convertible Notes to 2 Note Holders with a total face value of \$1,000,000. Each of these Convertible Notes are convertible, at the election of the Note Holder prior to maturity, into fully paid ordinary shares of the Group at the lesser of \$0.05 or a 20% discount to the 30 day VWAP at the time of conversion (which may not occur until after 6 months) or are redeemable in cash upon maturity. Interest is payable on the notes at a rate of 12% per annum. The notes mature after 12 months from the issue date. Pursuant to the Convertible Note Subscription Agreement each Note Holder is entitled to nominate a person for appointment to the Board of Directors of the Group. In addition the Group is required to enter into good faith discussions with the Note Holders to invest in or acquire one or more of the projects of the Group (with the exception of the Lorena Gold Project);
3. Drilling resumed at the Lorena Gold Project aimed at extending the existing mineral gold resources;

## MALACHITE RESOURCES LIMITED

### DIRECTORS' REPORT (CONTINUED)

#### MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR (CONTINUED)

4. The Group announced a fully underwritten renounceable Rights Issue to raise approximately \$3,500,000. Shareholders will be entitled to apply for new shares under the Rights Issue at 2.5 cents on the basis of 1 new share for every 4 shares held and will also receive 1 new option (exercisable at 5.0 cents at any time prior to 15 June 2012) for every new share applied for pursuant to the Rights Issue. The Rights Issue closes on 6 October 2011 and is underwritten by Patersons Securities Limited. A number of Directors, former Directors and the CEO of the Group have loaned funds to the Group in the amount of \$745,190 (advanced prior to the end of the Financial Year) and have committed to convert their loans into equity or to apply for shortfall pursuant to the Rights Issue such that these loans will be extinguished in the same process.

Except as described above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

#### LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group's projects are at the exploration and evaluation stage only and as such it is not possible to postulate which, if any, will proceed to development and mining operations. The Lorena Gold Project is the most advanced of the consolidated entity's projects, however further resources drilling and feasibility studies need to be undertaken before any decision regarding the development of this project can be made. The Group is seeking new investment in the Conrad Silver Project so that additional resources may be delineated by drilling and feasibility work can be initiated.

#### ENVIRONMENTAL REGULATIONS

The consolidated entity's activities in the mining industry are subject to regulations and approvals including mining heritage, environmental regulation, the implications of the High Court of Australia decisions in what are generally known as the "Mabo" and "Wik" cases and any laws of the Commonwealth or of a State or Territory regarding native and mining titles. Approvals, although granted in most cases, are discretionary. The question of native title has yet to be determined in some parts of the consolidated entity's interests and certain mining titles may be affected by native title.

The consolidated entity has an environmental rehabilitation policy that is applied to each tenement upon grant. The policy has been adhered to and no breaches have occurred during the period.

#### SHARE OPTIONS

|                                    | 2011              | 2010              |
|------------------------------------|-------------------|-------------------|
| Options on issue beginning of year | 26,760,000        | 20,360,000        |
| Employee options issued            | 2,000,000         | -                 |
| Employee options lapsed            | (3,310,000)       | (1,100,000)       |
| Employee options exercised         | -                 | -                 |
| Listed options expired             | -                 | -                 |
| Listed options issued              | -                 | -                 |
| Listed options exercised           | -                 | -                 |
| Unlisted options issued            | 8,765,028         | 7,500,000         |
| Unlisted options lapsed            | (14)              | -                 |
| Unlisted options exercised         | -                 | -                 |
| Options on issue end of year       | <u>34,215,014</u> | <u>26,760,000</u> |

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the interest of any other registered scheme.

Further information is given in Note 16 and 30 to the financial statements.

## MALACHITE RESOURCES LIMITED

### DIRECTORS' REPORT (CONTINUED)

#### INDEMNIFICATION OF OFFICERS AND AUDITORS

##### Indemnification

In accordance with the Constitution of Malachite Resources Limited each director and officer is indemnified on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by them as officers of Malachite Resources Limited or a related body corporate. The consolidated entity has not indemnified or agreed to indemnify the auditor of the consolidated entity against any liabilities incurred as auditor.

##### Insurance Policies

Since the end of or during the financial year the consolidated entity has paid premiums in respect of directors' and executive officers' liability and legal expenses insurance contracts for the year ended 30 June 2011. Such insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been directors or executive officers of the parent entity.

Directors have not included details of the nature of the liabilities covered, or the amount of the premium paid, as such disclosure is prohibited under the terms of the insurance contract.

#### REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- (a) Principles used to determine the nature and amount of remuneration
- (b) Details of remuneration
- (c) Service agreements
- (d) Share based compensation
- (e) Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

##### (a) Principles used to determine the nature and amount of remuneration

The consolidated entity's policy for determining the nature and amount of emoluments of board members and senior executives of the consolidated entity is as follows:

The objective of the entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- attracts and retains well qualified and suitably experienced applicants
- has the goal of economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of growth in share price, and, in the longer term, payment of dividends and delivering an adequate return on assets as well as focusing the executive on key non-financial drivers of value.
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short (STI) and long-term (LTI) incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

The overall level of executive reward takes into account the performance of the consolidated entity over a number of years, with greater emphasis given to the current year. Recognition is given to earnings in setting executive remuneration but, as the consolidated entity is involved in mineral exploration rather than mineral mining and production, relevant experience, industry standards and the annual exploration outcomes, rather than earnings, are given greatest weight in remuneration considerations.

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

Executive remuneration includes a base salary that is set with reference to the market, a short term incentive that comprises of an at risk bonus payable to reflect performance and a long term incentive that provides scope for equity participation over the longer term.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board has also drawn on external sources of information to ensure non-executive directors' fees and payments are appropriate and in line with the market.

Directors' fees

The current base remuneration was last reviewed with effect from 1 January 2011.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$100,000 per annum and was approved by shareholders at the AGM on 23 November 2010.

(b) Details of remuneration

Cash remuneration packages are set at levels that are intended to attract and retain executives capable of managing and enhancing the consolidated entity's operations. Remuneration of individual non-executive Directors is determined by the Board and may be varied from time to time but always such that the aggregate (currently \$8,150 per annum) is within the maximum amount (currently \$100,000 per annum) for which prior approval of the shareholders has been received.

Executive directors are entitled to long service leave of 12 weeks after a period of 7 years continuous service from the Original Commencement Date. After 7 years from the Original Commencement Date long service leave accrues at the rate of 1.3 weeks per year of service.

Details of the nature and amount of each element of the emoluments of each of the directors and the key management personnel of Malachite Resources Limited during the year ended 30 June 2011 are set out below.

|                                       | Short-term Employee Benefits |                |               |                       | Post-employment Benefits                | Long-term Benefits |                      | Share Based Payments | Total          |
|---------------------------------------|------------------------------|----------------|---------------|-----------------------|---|--------------------|----------------------|----------------------|----------------|
|                                       | Cash Salary and Fees         |                | Cash Bonus    | Non Monetary Benefits | Director's Superannuation Contributions | Long Service Leave | Termination Benefits | *Options             |                |
|                                       | Paid                         | Accrued        |               |                       |   |                    |                      |                      |                |
|                                       | \$                           | \$             | \$            | \$                    | \$                                      | \$                 | \$                   | \$                   |                |
| <b>2011</b>                           |                              |                |               |                       |   |                    |                      |                      |                |
| <b>Directors</b>                      |                              |                |               |                       |   |                    |                      |                      |                |
| Dr GG Lowder                          | 190,958                      | 41,667         | -             | -                     | 20,936                                  | 53,700             | -                    | 38,911               | 346,172        |
| Mr RD Meares **                       | 104,619                      | 4,583          | -             | -                     | 9,828                                   | -                  | -                    | 25,940               | 144,970        |
| Mr D O'Neill                          | 17,500                       | -              | -             | -                     | 1,575                                   | -                  | -                    | 3,665                | 22,740         |
| Mr W Staude                           | 17,500                       | -              | -             | -                     | 1,575                                   | -                  | -                    | 3,665                | 22,740         |
| Mr RM Randall                         | 24,306                       | 5,000          | -             | -                     | -                                       | -                  | -                    | 4,342                | 33,648         |
| Mr James Dean ***                     | -                            | 10,640         | -             | -                     | -                                       | -                  | -                    | -                    | 10,640         |
| Mr Joel Bidois****                    | -                            | 10,640         | -             | -                     | -                                       | -                  | -                    | -                    | 10,640         |
| <b>Other key management personnel</b> |                              |                |               |                       |   |                    |                      |                      |                |
| Mr Geoff Hiller ^                     | 28,226                       | 41,667         | -             | -                     | 6,290                                   | -                  | -                    | 8,381                | 84,564         |
|                                       | <b>383,109</b>               | <b>114,197</b> | -             | -                     | <b>40,204</b>                           | <b>53,700</b>      | -                    | <b>84,904</b>        | <b>676,114</b> |
| <b>2010</b>                           |                              |                |               |                       |   |                    |                      |                      |                |
| Dr GG Lowder                          | 175,958                      | -              | 27,200        | -                     | 17,374                                  | 62,652             | -                    | 74,142               | 357,326        |
| Mr RD Meares                          | 178,063                      | -              | 22,500        | -                     | 18,051                                  | 68,861             | -                    | 49,968               | 337,443        |
| Mr D O'Neill                          | 21,458                       | -              | -             | -                     | 1,931                                   | -                  | -                    | 7,303                | 30,692         |
| Mr W Staude                           | 21,458                       | -              | -             | -                     | 1,931                                   | -                  | -                    | 7,303                | 30,692         |
| Mr RM Randall                         | 23,390                       | -              | -             | -                     | -                                       | -                  | -                    | 8,850                | 32,240         |
|                                       | <b>420,327</b>               | -              | <b>49,700</b> | -                     | <b>39,287</b>                           | <b>131,513</b>     | -                    | <b>147,566</b>       | <b>788,393</b> |

Key management personnel are the same for the group and the company.

There is no link between key management personnel remuneration and the share price or dividends.

All of the top paid executives are shown above.

\* Details of options issued are contained in note 30.

\*\* Retired from Executive position December 2010 and took up a Non-Executive position in January 2011.

\*\*\* Appointed 10/02/11.

\*\*\*\* Appointed 10/02/11-resigned 11/07/11.

^ Chief Executive Officer (appointed 21/03/11).

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

|                                      | Fixed remuneration |      | At risk - STI |      | At risk - LTI |      |
|--------------------------------------|--------------------|------|---------------|------|---------------|------|
|                                      | 2011               | 2010 | 2011          | 2010 | 2011          | 2010 |
| Dr GG Lowder                         | 89%                | 72%  | 0%            | 8%   | 11%           | 21%  |
| Mr RD Meares                         | 82%                | 79%  | 0%            | 7%   | 18%           | 15%  |
| Mr D O'Neill (resigned 28/02/11)     | 84%                | 76%  | -             | -    | 16%           | 24%  |
| Mr W Staude (resigned 28/02/11)      | 84%                | 76%  | -             | -    | 16%           | 24%  |
| Mr RM Randall                        | 87%                | 73%  | -             | -    | 13%           | 27%  |
| Mr James Dean (appointed 10/02/11)   | 100%               | -    | -             | -    | 0%            | -    |
| Mr Joel Bidois (appointed 10/02/11)  | 100%               | -    | -             | -    | 0%            | -    |
| (resigned 11/07/11)                  |                    |      |               |      |               |      |
| Mr Geoff Hiller (appointed 21/03/11) | 90%                | -    | -             | -    | 10%           | -    |

(c) Service agreements

Remuneration and other terms of employment for executive directors and CEO are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses and participation, when eligible, in the Malachite Resources Limited Employee & Contractors Option Plan ("ECOP"). Other major provisions of the agreements relating to remuneration are set out below.

All contracts with executives may be terminated early by either party with 3 months notice, subject to termination payments.

| Name                                      | Term of agreement                | Base salary including superannuation | Termination benefit |
|---|----------------------------------|--------------------------------------|---------------------|
| Mr Geoff Hiller -CEO (appointed 21/03/11) | 3 years commencing 21 March 2011 | 272,500                              | nil                 |

Dr GG Lowder - Executive Chairman service agreement expired 22 August 2010 and a new contract will be negotiated.

Directors' Interests

The relevant interest of each Director (including their associates) in the share capital of the Company as at 30 June 2011 are set out in note 19 to the financial statements.

(d) Share based compensation

Employee Option Plan

The Company operates an Employees and Contractors Option Plan ("Plan") which was most recently approved by shareholders at the Company's Annual General Meeting held 23 November 2010. The Plan is administered by the Board. Only eligible persons (and their associates) may be invited to participate in the Plan. Eligible persons include full time employees of the Company, permanent part-time employees, qualifying contractors and persons who may be a director, alternate director or company secretary of the Company or an entity in the Group. The Plan is designed to provide long term incentives for executives to deliver shareholder value. Under the Plan, participants are granted options which only vest if certain exploration outcomes or share price hurdles are achieved or at the end of the vesting period.

Options are granted under the plan for no consideration. Options granted under the Plan carry no dividend or voting rights. Each option entitles the holder to subscribe for and be allotted one ordinary fully paid share in the capital of the Company. The exercise price is determined by the Directors at the time of issuing an invitation to participate in the Plan. Options granted under the Plan have been granted at a premium to the price at which the Company's shares were traded on the Australian Stock Exchange at the time of granting.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

| Grant Date  | Expiry Date   | Exercise Price | Date vested and exercisable   | Value per Option at grant date | Performance Achieved | % Vested | % Forfeited |
|-------------|---------------|----------------|-------------------------------|--------------------------------|----------------------|----------|-------------|
| 23 Nov 2006 | 30 Nov 2011   | \$0.030        | 1/3 vest 23/11/07             | \$0.0700                       | na                   | 33%      | -           |
|             |               |                | 1/3 vest 23/11/08             |                                | na                   | 33%      | -           |
|             |               |                | 1/3 vest 23/11/09             |                                | na                   | 34%      | -           |
| 22 Nov 2007 | 22 Nov 2012   | \$0.431        | based on exploration outcomes | \$0.0670                       | to be determined     | na       | -           |
| 25 Nov 2008 | 25 Nov 2013   | \$0.200        | 1/3 vest 25/11/09             | \$0.0248                       | na                   | 33%      | -           |
|             |               |                | 1/3 vest 23/11/10             |                                | na                   | 33%      | -           |
|             |               |                | 1/3 vest 25/11/11             |                                | na                   | -        | -           |
| 21 Mar 2011 | 21 April 2013 | \$0.100        | 1,000,000 vest 21/03/2012     | \$0.0224                       | na                   | 0%       | -           |
|             |               |                | 1,000,000 vest 21/03/2013     |                                |                      | 0%       | -           |

**MALACHITE RESOURCES LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (CONTINUED)**

**(d) Share based compensation (continued)**

All options granted to Directors have been approved by Shareholders.

Benefits are payable (or vest) upon achievement of exploration based performance hurdles or upon expiry of vesting periods.

No options terms and conditions have been altered at any time, except for the price of options granted to Directors pursuant to shareholder approval on the 25th November 2008. These options which were priced at 8.8 cents were subsequently repriced by the Board to 20 cents to better align the interests of Directors with the Company's shareholders.

Details of options over ordinary shares in the company provided as remuneration to each director and officer of Malachite Resources Limited are set out below. When exercisable, each option is convertible into one ordinary share of Malachite Resources Limited. Further information on the options is set out in note 30 to the financial statements.

| Directors and Officers                                     | Number of options granted during the year |      | Number of options vested during the year |         | Total value of grant yet to vest |         |
|--|---|------|--|---------|----------------------------------|---------|
|  | 2011                                      | 2010 | 2011                                     | 2010    | Minimum                          | Maximum |
|  |   |      |  |         | \$                               | \$      |
| Dr GG Lowder   | -   | -    | 990,000                                  | 416,667 | -                                | 226,431 |
| Mr RD Meares   | -   | -    | 660,000                                  | 333,333 | -                                | 150,954 |
| Mr D O'Neill   | -   | -    | -  | -       | -                                | -       |
| Mr W Staude  | -   | -    | -  | -       | -                                | -       |
| Mr RM Randall  | -   | -    | 132,000                                  | 83,333  | -                                | 23,486  |
| Mr James Dean (appointed 10/02/11)                         | -   | -    | -  | -       | -                                | -       |
| Mr Joel Bidois (appointed 10/02/11)<br>(resigned 11/07/11) | -   | -    | -  | -       | -                                | -       |
| Mr Geoff Hiller (appointed 21/03/11)                       | 2,000,000                                 | -    | -  | -       | -                                | 44,800  |

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the previous remuneration tables. The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

During the current or prior year there were no options exercised by the directors under the employee option plan.

The model inputs for options granted during the year ended 30 June 2011 included:

- (a) options are granted for: no consideration and have a two year one month life vesting in two equal lots on the first and second anniversary of the grant date.
- (b) exercise price: \$0.10
- (c) grant date: 21/03/2011
- (d) expiry date: 21/04/2013
- (e) share price at grant date: \$0.07
- (f) expected price volatility of the company's shares: 80%
- (g) expected dividend yield: 0%
- (h) risk-free interest rate: 4.8%
- (i) probability rate: Tranche one 100%, Tranche two 75%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

**(e) Additional information**

The consolidated entity's projects are all still at the exploration and evaluation stage and as a result, it does not yet have earnings from mining. In view of that, shareholder wealth is based on the market's view of the value of discoveries made to date, the consolidated entity's potential for future discovery success, and the quality and experience of its people. This is reflected in market capitalisation, which is also influenced by factors outside the consolidated entity's control, such as commodity prices and general market behaviour.

Accordingly, remuneration policy for key management personnel is based primarily on the extent to which the corporate exploration and evaluation objectives are met, recognising that the timeframe for exploration success commonly exceeds one year. Key performance criteria include measuring actual expenditure against budget, the quality and relevance of geological and other scientific or technical work applied, and the selection, management and performance of field staff and outside contractors, such as drilling contractors. Where a project is sufficiently advanced for it to be appropriate, achievement of resource definition goals is also given considerable emphasis, as the market generally values defined resources more than resource potential. This aspect plays a significant role in setting the long term incentive component of remuneration.

**MALACHITE RESOURCES LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

**AUDITORS**

**Non-audit services**

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

**Auditor's independence declaration**

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is attached.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

|   | <b>Consolidated</b> |             |
|---|---------------------|-------------|
|   | <b>2011</b>         | <b>2010</b> |
|   | <b>\$</b>           | <b>\$</b>   |
| <b>Assurance services</b>   |                     |             |
| <b>Audit services</b>   |                     |             |
| PricewaterhouseCoopers Australian firm:   |                     |             |
| Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i> | 53,462              | 41,000      |

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

**Rounding of amounts**

ASIC 98/100 The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in dollars, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



GG LOWDER  
Executive Chairman

Sydney, 27 September 2011



## Auditor's Independence Declaration

As lead auditor for the audit of Malachite Resources Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Malachite Resources Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'B Entwistle', is written in a cursive style.

Brett Entwistle  
Partner  
PricewaterhouseCoopers

27 September 2011

**MALACHITE RESOURCES LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2011**

|  | Note      | 2011<br>\$         | 2010<br>\$         |
|--|-----------|--------------------|--------------------|
|  |           | <u>          </u>  | <u>          </u>  |
| <b>Revenue from continuing operations</b>                        | <b>5</b>  | 50,796             | 69,551             |
| Accounting and audit expense                                     |           | (59,003)           | (48,003)           |
| Corporate expenses   | <b>6</b>  | (595,542)          | (299,712)          |
| Depreciation and amortisation expense                            | <b>6</b>  | (34,755)           | (38,265)           |
| Employee benefits expense  |           | (715,722)          | (731,664)          |
| Exploration expenditure expensed                                 | <b>6</b>  | (142,408)          | (2,951,941)        |
| Finance costs  |           | (100,629)          | -                  |
| Occupancy expenses   |           | (121,316)          | (118,079)          |
| Other expenses from ordinary activities                          |           | (4,084)            | -                  |
|  |           | <u>(1,722,663)</u> | <u>(4,118,113)</u> |
| <b>Loss before Income Tax Expense</b>                            |           |                    |                    |
| Income tax expense   | <b>7</b>  | -                  | -                  |
| <b>Net Loss for the year</b>                                     | <b>18</b> | <u>(1,722,663)</u> | <u>(4,118,113)</u> |
| <b>Other Comprehensive income</b>                                |           |                    |                    |
| Other Comprehensive income for the year                          |           | -                  | -                  |
| <b>Total comprehensive income for the period</b>                 |           | <u>(1,722,663)</u> | <u>(4,118,113)</u> |
| Loss for the period is attributable to:                          |           |                    |                    |
| Owners of the company  |           | <u>(1,722,663)</u> | <u>(4,118,113)</u> |
| Total comprehensive income is attributable to:                   |           |                    |                    |
| Owners of the company  |           | <u>(1,722,663)</u> | <u>(4,118,113)</u> |
| Basic and diluted earnings/(loss) per share<br>(cents per share) | <b>29</b> | <u>(0.54)</u>      | <u>(2.47)</u>      |

The above consolidated statement of comprehensive income are to be read in conjunction with the accompanying notes.

**MALACHITE RESOURCES LIMITED**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2011**

|  | Note | 2011<br>\$        | 2010<br>\$        |
|--|------|-------------------|-------------------|
|  |      | <u>          </u> | <u>          </u> |
| <b>CURRENT ASSETS</b>                  |      |                   |                   |
| Cash and cash equivalents              | 8    | 164,478           | 1,804,418         |
| Trade and other receivables            | 9    | 50,615            | 64,160            |
| <b>TOTAL CURRENT ASSETS</b>            |      | <u>215,093</u>    | <u>1,868,578</u>  |
| <b>NON-CURRENT ASSETS</b>              |      |                   |                   |
| Receivables                            | 10   | 476,529           | 199,673           |
| Property, plant and equipment          | 11   | 877,822           | 591,952           |
| Exploration and evaluation expenditure | 12   | 36,007,831        | 13,201,814        |
| <b>TOTAL NON-CURRENT ASSETS</b>        |      | <u>37,362,182</u> | <u>13,993,439</u> |
| <b>TOTAL ASSETS</b>                    |      | <u>37,577,275</u> | <u>15,862,017</u> |
| <b>CURRENT LIABILITIES</b>             |      |                   |                   |
| Trade and other payables               | 13   | 492,639           | 604,122           |
| Borrowings                             | 14   | 761,193           | 1,000,000         |
| <b>TOTAL CURRENT LIABILITIES</b>       |      | <u>1,253,832</u>  | <u>1,604,122</u>  |
| <b>NON-CURRENT LIABILITIES</b>         |      |                   |                   |
| Borrowings                             | 14   | 73,451            | -                 |
| <b>TOTAL NON-CURRENT LIABILITIES</b>   |      | <u>73,451</u>     | <u>-</u>          |
| <b>TOTAL LIABILITIES</b>               |      | <u>1,327,283</u>  | <u>1,604,122</u>  |
| <b>NET ASSETS</b>                      |      | <u>36,249,992</u> | <u>14,257,895</u> |
| <b>EQUITY</b>                          |      |                   |                   |
| Contributed equity                     | 15   | 51,087,741        | 27,474,702        |
| Reserve                                | 17   | 1,326,034         | 1,224,313         |
| Retained earnings                      | 18   | (16,163,783)      | (14,441,120)      |
| <b>TOTAL EQUITY</b>                    |      | <u>36,249,992</u> | <u>14,257,895</u> |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

**MALACHITE RESOURCES LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011**

|   |      | Attributable to owners of<br>Malachite Resources Limited |                  |                     |                   |
|---|------|--|------------------|---------------------|-------------------|
|   | Note | Contributed<br>Equity                                    | Reserves         | Earnings            | Total Equity      |
| <b>Balance as at 1 July 2009</b>                      |      | 25,099,153   | 1,039,955        | (10,323,007)        | 15,816,101        |
| Total comprehensive income for the year               |      | -  | -                | (4,118,113)         | (4,118,113)       |
| Transactions with owners in their capacity as owners: |      |  |                  |                     |                   |
| Contributions of equity, net of transaction costs     |      | 2,375,549  | -                | -                   | 2,375,549         |
| Employee and non-employee share options               | 30   | -  | 184,358          | -                   | 184,358           |
| <b>Balance as at 30 June 2010</b>                     |      | <b>27,474,702</b>  | <b>1,224,313</b> | <b>(14,441,120)</b> | <b>14,257,895</b> |
| <br><b>Balance as at 1 July 2010</b>                  |      | <b>27,474,702</b>  | <b>1,224,313</b> | <b>(14,441,120)</b> | <b>14,257,895</b> |
| Total comprehensive income for the year               |      | -  | -                | (1,722,663)         | (1,722,663)       |
| Transactions with owners in their capacity as owners: |      |  |                  |                     |                   |
| Contributions of equity, net of transaction costs     |      | 23,613,039   | -                | -                   | 23,613,039        |
| Employee and non-employee share options               | 30   | -  | 101,721          | -                   | 101,721           |
| <b>Balance as at 30 June 2011</b>                     |      | <b>51,087,741</b>  | <b>1,326,034</b> | <b>(16,163,783)</b> | <b>36,249,992</b> |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**MALACHITE RESOURCES LIMITED**

**CONSOLIDATED STATEMENT CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2011**

|   | Note          | 2011<br>\$            | 2010<br>\$              |
|---|---------------|-----------------------|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>               |               |                       |                         |
| Payments to suppliers and employees (inclusive of GST)    |               | (1,212,513)           | (621,759)               |
| Exploration and evaluation expenditure (inclusive of GST) |               | (1,988,524)           | (1,931,166)             |
| Interest received   | 5             | 26,313                | 68,824                  |
| Sundry receipts (inclusive of GST)                        |               | 26,931                | 800                     |
| Net cash outflow from operating activities                | <b>28 (c)</b> | <u>(3,147,793)</u>    | <u>(2,483,301)</u>      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>               |               |                       |                         |
| Payments for property, plant and equipment                |               | (4,831)               | (40,808)                |
| Payments for security deposits                            |               | (205,055)             | -                       |
| Repayment of Hire Purchase loan                           |               | (1,574)               | -                       |
| Net cash outflow from investing activities                |               | <u>(211,460)</u>      | <u>(40,808)</u>         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>               |               |                       |                         |
| Proceeds from convertible note                            |               | -                     | 1,000,000               |
| Proceeds from loans                                       | <b>23 (c)</b> | 735,500               | -                       |
| Proceeds from share issues                                |               | 1,000,500             | 2,515,795               |
| Equity raising expenses                                   | <b>15 (a)</b> | <u>(16,687)</u>       | <u>(140,246)</u>        |
| Net cash inflow from financing activities                 |               | <u>1,719,313</u>      | <u>3,375,549</u>        |
| NET INCREASE/(DECREASE) IN CASH HELD                      |               | (1,639,940)           | 851,440                 |
| CASH AT THE BEGINNING OF THE FINANCIAL YEAR               |               | <u>1,804,418</u>      | <u>952,978</u>          |
| CASH AT THE END OF THE FINANCIAL YEAR                     | <b>28 (a)</b> | <u><u>164,478</u></u> | <u><u>1,804,418</u></u> |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## MALACHITE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

#### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements for the consolidated entity consisting of Malachite Resources Limited and its subsidiaries.

##### (a) Basis of preparation

This general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

##### *Compliance with IFRS*

The consolidated financial statements of Malachite Resources Limited group and the separate financial statements of Malachite Resources Limited also comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

##### *Historical cost convention*

These financial statements have been prepared under the historical cost convention.

##### *Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

##### *Significant Matters relating to the ongoing viability of operations*

On 10 February 2011 the Group completed the acquisition of Volga Elderberry Pty Limited ("VEPL") which owns the Lorena Gold Project. This acquisition is expected to greatly enhance the Group's transition from junior explorer to emerging miner.

Following the acquisition of VEPL, the Group initiated a series of fund raisings to carry out exploration programs at Lorena aimed at increasing the mineral resources and to continue activities at its other projects including the Conrad Silver Project:

- On 2 September 2011, a pro rata, renounceable rights issue of one new share and one new option for every 4 shares held at 15 September 2011 was announced to the market to raise a net amount of approximately \$2,400,000. The amount of approximately \$3,500,000 is reduced by converting loans amounting to \$745,190 (\$695,000 at 30 June 2011) received from directors, former directors and the CEO of the Group into the rights issue, and reduced by raising costs estimated at \$350,000. The closing date for the rights issue is 6 October 2011. The rights issue is fully underwritten by Patersons Securities Limited. The funds raised will be applied to meet the ongoing commitments of the group.
- On 29 July 2011 and 29 August 2011 the Group entered into Convertible Note Subscription Agreements to the total value of \$1,000,000. These funds have been utilised to fund the ongoing drilling program at Lorena. The maturity date of the notes is 12 months from the date of the issue date of the respective notes being 5 August 2012 and 1 September 2012. Each of the 10 notes may (at the Note Holder's election) be converted into shares prior to the maturity date or are redeemable in cash upon maturity (with cash payment required to be made within 3 months after the maturity date of the notes).
- On 31 May 2011, the group entered into an Option and Purchase Agreement for the sale of 100% of its interest in the Elsmore tenements through a series of staged payments over time which may generate up to \$1,350,000 if the potential buyer proceeds to production of tin from the tenements.

Consistent with the nature of the Group's activities and its ongoing investment of funds into exploration projects the Group has experienced operating losses of \$1,722,663 and negative cash flows from operations of \$3,147,793 during the year ended 30 June 2011. As at 30 June 2011, the Group also has a working capital deficiency of \$1,038,739, which includes \$735,500 of loans of which \$695,000 was raised from directors, former directors and the CEO of the Group with the intention that those loans are to be converted into equity and not repaid, and \$40,500 of loans from directors of the Group which are expected to be converted into equity pursuant to the March 2011 Share Placement upon Shareholder approval.

The continuing viability of the Group and its ability to continue as a going concern and meet its commitments as and when they fall due is dependent upon the Group being successful in:

- raising additional funding through various means which may include the following:
  - the completion of the rights issue described above,
  - additional placement once the Group has refreshed its 15% capacity which is expected to occur at the next Annual General Meeting in November 2011,
  - the undertaking of further capital raising such as a shareholder approved placement,
  - further share purchase plan,
  - the completion of the sale of the Group's interest in the Elsmore tenements,
  - entering into potential joint venture arrangements on its projects, other than Lorena,
  - the potential to raise up to \$12,700,000 in June 2012 upon the exercise of the options issued under the rights issue,
  - the conversion of the convertible notes into equity on or before maturity.

**MALACHITE RESOURCES LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Significant Matters relating to the ongoing viability of operations (continued)*

· reducing materially, if required, the Group's ongoing operating costs, as it has done from time to time in the past, to suit available financial resources and the timing of anticipated new capital raisings. All of the Group's exploration and drilling programs are capable of being scaled back at any point in time to ensure that expenditure matches currently available funding.

As a result of these matters, there is a material uncertainty whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The Group has a successful track record over many years of raising new capital from both existing shareholders and strategic investors. The Group successfully raised \$343,125 from a share purchase plan undertaken in December 2010 and \$657,375 by way of a placement in March 2011. Furthermore, as it has been demonstrated through the implementation of the \$1,000,000 convertible notes and the implementation of the \$3,500,000 (approximately) rights issue, the directors believe that the new Lorena Gold project enhances the ability of the Group to raise new capital provided satisfactory exploration results are achieved at Lorena.

On that basis the directors believe that the Group will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2011. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

**(b) Principles of consolidation**

*(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Malachite Resources Limited ("company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Malachite Resources Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Malachite Resources Limited.

*(ii) Joint ventures*

Jointly controlled assets

The consolidated entity's proportionate share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the Financial Statements. Details of the consolidated entity's interests in joint ventures are shown in Note 26.

**MALACHITE RESOURCES LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Cash and cash equivalents**

For the purpose of the cash flows statements, cash and cash equivalents includes:

- cash on hand and at call deposits with banks or financial institutions; and
- investments in money market instruments with less than 90 days to maturity that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(d) Employee benefits**

*(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave and all other short-term employee benefit obligations are presented as other payables.

*(ii) Other long-term employee benefit obligations*

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*(iii) Share based compensation*

Share based compensation benefits are provided to employees via the Malachite Resources Limited Employee Option Plan. Information relating to the plan is set out in note 30.

The fair value of options granted under the Malachite Resources Limited Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

**(e) Exploration and Evaluation Expenditure**

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward where there is current activity and rights of tenure, to the extent that they are expected to be recouped through the successful development of the area, or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves but nevertheless, active and significant operations in the area of interest are continuing.

Accumulated costs in relation to an abandoned area are written off, in full, in the year in which the decision to abandon the area is made or where it fails to meet the conditions outlined above for the carry-forward of these costs as an asset.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

**(f) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

**MALACHITE RESOURCES LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

**(h) Impairment of assets**

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(i) Income Tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax assets realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

*(i) Investment allowances*

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

*(ii) Tax consolidation legislation*

Malachite Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Malachite Resources Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amount, Malachite Resources Limited also recognises the current liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets and liabilities arising under tax funding agreement with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution (or distribution from) wholly-owned tax consolidated entities.

**(j) Trade payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**MALACHITE RESOURCES LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(k) Borrowings**

Loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accruals basis.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**(l) Investments and other financial assets**

**Classification**

The Group classifies its investments in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

*(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Assets in this category are classified as current assets.

*(ii) Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (notes 9 and 10).

*(iii) Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Investments are designed as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

**(m) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 22). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

**(n) Business combinations**

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

**MALACHITE RESOURCES LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(o) Earnings/(loss) per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**(p) Plant and equipment**

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on plant and equipment.

Depreciation provided on plant and equipment is calculated on a diminishing value basis so as to write off the net cost of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

|                       |             |
|-----------------------|-------------|
| - Motor Vehicles      | 5 - 6 years |
| - Plant and equipment | 4 - 8 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount ( note 1(h) ).

**(q) Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(r) Revenue Recognition**

*(i) Interest Income*

Interest income is recognised on a time proportion basis, taking into account the interest rates applicable to financial assets.

*(ii) Other Income*

Other income is measured at the fair value of the consideration received or receivable.

*(iii) Dividends*

Dividends are recognised as revenue when the right to receive payment is established.

**(s) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts as they are due for settlement.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board.

The Company operates predominantly in the one business segment and in one geographical area, namely Australian mineral exploration and evaluation.

*Change in accounting policy*

The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in an increase in the number of reportable segments presented. The segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. There has been no impact on the measurement of the company's assets and liabilities.

(u) Parent entity financial information

The financial information for the parent entity, Malachite Resources Limited, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements.

(v) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretation is set out below:

**AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13** (effective 1 January 2013)  
AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

**AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income** (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

**AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements** (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

**MALACHITE RESOURCES LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**2 FINANCIAL RISK MANAGEMENT**

The Group's activities expose it to a variety of financial risks; market risk (including foreign exchange risk), credit risk, liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the Board and the financial risks faced by the Group other than liquidity risk are considered minimal at this stage.

Cash is held at one of the big four banks in Australia that is exposed to variable rates. This is managed through holding the cash in a high interest bearing account and is transferred to ordinary account as required.

The Group holds the following financial instruments:

|                              | <b>2011</b> | <b>2010</b> |
|------------------------------|-------------|-------------|
|                              | <b>\$</b>   | <b>\$</b>   |
| <b>Financial assets</b>      |             |             |
| Cash and cash equivalents    | 164,478     | 1,804,418   |
| Trade and other receivables  | 463,165     | 199,790     |
|                              | 627,643     | 2,004,208   |
| <b>Financial liabilities</b> |             |             |
| Trade and other payables     | 492,639     | 604,122     |
| Borrowings                   | 834,644     | -           |
|                              | 1,327,283   | 604,122     |

**(a) Market risk**

*(i) Interest rate risk*

The Group's and Parent's main interest rate risk arises from cash and cash equivalents and deposits with banks.

*Sensitivity*

At 30 June 2011, if interest rates had changed by +/- 100 base points from the year-end rates with other variables held constant, post-tax loss for the year would have been \$6,087 lower /higher (2010: change of 100 bps: \$37,302 lower/higher), as a result of lower/higher interest income from cash and cash equivalents and deposits with banks.

*(ii) Foreign Exchange Risk*

The Group operates domestically and is not exposed to significant foreign exchange risk.

*(iii) Price risk*

The Group is not exposed to equity securities price risk. The Group is indirectly exposed to commodity price rise to the extent of its operations which are undertaken in the mineral sector.

To manage its price risk arising from investments in equity securities, the Group has minimised its risk exposure and will continue to monitor the materiality in terms of possible impact on the profit and loss.

**(b) Credit risk**

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures in respect of outstanding receivables and committed transactions.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

**(c) Liquidity risk**

The Group manages liquidity risk by monitoring actual cash flows and maintaining sufficient cash to fund operations. Surplus funds are generally only invested in short term deposits with Australian Banks.

MALACHITE RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

*Maturities of financial liabilities*

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| Consolidated                         | Less than 6 Months | 6-12 Months      | Between 1 and 2 Years | Between 2 and 5 Years | Over 5 Years | Total contractual cash flows | Carrying amount (assets) / liabilities |
|--------------------------------------|--------------------|------------------|-----------------------|-----------------------|--------------|------------------------------|--|
| <b>2011</b>                          |                    |                  |                       |                       |              |                              |  |
| <b>Non-derivatives</b>               |                    |                  |                       |                       |              |                              |  |
| Non-interest bearing *               | 1,103,139          | -                | -                     | -                     | -            | 1,103,139                    | 1,103,139                              |
| <b>Fixed rate</b>                    |                    |                  |                       |                       |              |                              |  |
| Borrowings (excluding hire purchase) | -                  | 129,688          | -                     | -                     | -            | 129,688                      | 125,000                                |
| Hire purchase liabilities            | 13,277             | 13,277           | 26,554                | 62,126                | -            | 115,234                      | 99,144                                 |
| <b>Total Non-derivatives</b>         | <b>1,116,416</b>   | <b>142,965</b>   | <b>26,554</b>         | <b>62,126</b>         | <b>-</b>     | <b>1,348,061</b>             | <b>1,327,283</b>                       |
| <b>2010</b>                          |                    |                  |                       |                       |              |                              |  |
| <b>Non-derivatives</b>               |                    |                  |                       |                       |              |                              |  |
| Non-interest bearing                 | 604,122            | -                | -                     | -                     | -            | 604,122                      | 604,122                                |
| <b>Fixed rate</b>                    | <b>-</b>           | <b>1,100,000</b> | <b>-</b>              | <b>-</b>              | <b>-</b>     | <b>1,100,000</b>             | <b>1,000,000</b>                       |
| <b>Total Non-derivatives</b>         | <b>604,122</b>     | <b>1,100,000</b> | <b>-</b>              | <b>-</b>              | <b>-</b>     | <b>1,704,122</b>             | <b>1,604,122</b>                       |

\* Refer note 27 where it is indicated that a portion of this balance will be converted into equity as part of the Rights Issue.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, investments in unlisted subsidiaries) is determined using valuation techniques. The Group does not have financial instruments as at 30 June 2011 which require the use of valuation techniques.

(e) Capital risk management

The group has no long term debt therefore capital is raised as and when it is required to do further exploration activities.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

**Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

*Exploration and evaluation expenditure*

Certain exploration and evaluation expenditure is capitalised where it is considered likely that the expenditure will be recovered by future exploitation or sale, or where activities have not reached a stage which permits a reasonable assessment of the existence of commercially recoverable reserves. This process necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether economically viable extraction operations can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy it is concluded unlikely that the expenditure will be recovered by future exploitation or sale, the relevant amount capitalised is written off to the income statement.

Carried forward exploration and evaluation expenditures are disclosed in note 12 and relate primarily to capitalisation and evaluation costs from activities in New South Wales and Queensland.

*Business combination*

A business combination is a transaction in which an acquirer obtains controls of one or more subsidiaries. The acquirer is the entity that obtains control of the other combining entities or businesses. In some situations a reverse acquisition could occur when the acquirer is the entity whose equity instruments have been acquired and the issuing entity is the acquiree. This might be the case when a private entity arranges to have itself "acquired" by a publicly listed entity and as a result of that transaction the shareholders of the private entity obtain a majority of the shareholding of the publicly listed entity.

**MALACHITE RESOURCES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

*Business combination (continued)*

During the year the company acquired Volga Elderberry Pty Limited (refer note 24 Business combination) and it has been determined that the acquirer in that transaction is the company. In forming that conclusion management considered the following factors:

- (a) the relative voting rights in the company after the business combination
- (b) the existence of a large minority voting interest in the combined entity if no other owner or organised group of owners has a significant voting interest
- (c) the composition of the governing body of the Malachite
- (d) the composition of the senior management of Malachite
- (e) the terms of exchange of equity interests

In considering the transaction, Malachite also determined that Volga Elderberry Pty Limited met the definition of a business as defined in AASB 3 *Business Combinations*. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. In forming that conclusion Malachite reviewed and assessed the level of inputs and processes that were in place in Volga Elderberry Pty Limited prior to the acquisition and that were acquired by the Group.

**4 SEGMENT INFORMATION**

The economic entity operates in one segment only being mineral exploration and development in Australia.

| <b>5 REVENUE</b>                  | <b>2011</b>   | <b>2010</b>   |
|-----------------------------------|---------------|---------------|
| <b>From continuing Operations</b> | <b>\$</b>     | <b>\$</b>     |
| Interest                          | 26,313        | 68,824        |
| Services                          | 24,483        | 727           |
|                                   | <b>50,796</b> | <b>69,551</b> |

**6 EXPENSES**

The loss before income tax includes the following expenses:

|  |          |           |
|--|----------|-----------|
| Depreciation of non-current assets:            |          |           |
| - Property, Plant & equipment                  | 13,352   | 20,742    |
| - Motor vehicles                               | 21,403   | 17,523    |
| Total Depreciation                             | 34,755   | 38,265    |
| Employee entitlements - movement in provisions | (80,771) | 111,217   |
| Employee share based payments                  | 101,721  | 184,358   |
| Operating lease rental expenses                | 113,686  | 110,260   |
| Write off of exploration expenditure           | 142,408  | 2,951,941 |

**7 INCOME TAX**

|           |   |             |             |
|-----------|---|-------------|-------------|
| <b>a)</b> | The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax amount in the financial statements as follows: |             |             |
|           | Loss from ordinary activities   | (1,722,663) | (4,118,113) |
|           | Prima facie income tax benefit calculated at 30% (2010 30%) of taxable loss   | (516,799)   | (1,235,434) |
|           | Non deductible items  | 31,850      | 56,882      |
|           | Taxable losses not recognised   | 484,949     | 1,178,552   |
|           | Income tax expense  | -           | -           |
| <b>b)</b> | Franking account balance  | 230         | 230         |
| <b>c)</b> | Tax losses  |             |             |
|           | Unused tax losses for which no deferred tax asset has been recognised.  | 8,992,081   | 7,348,861   |
|           | Deferred tax liability offset by tax losses of the same amount.   | 1,345,003   | 582,344     |

MALACHITE RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| <b>8 CASH AND CASH EQUIVALENTS</b> | <b>2011</b>    | <b>2010</b>      |
|------------------------------------|----------------|------------------|
|                                    | <b>\$</b>      | <b>\$</b>        |
| Cash at bank and on hand           | 164,478        | 1,804,418        |
|                                    | <u>164,478</u> | <u>1,804,418</u> |

**9 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES**

|                     |               |               |
|---------------------|---------------|---------------|
| Accounts Receivable | 1,210         | 200           |
| Other debtors       | 659           | 1,722         |
| Employee advances   | 3,799         | 6,500         |
| Rental bonds        | 2,540         | 1,840         |
| GST receivables     | 16,101        | 27,528        |
| Prepayments         | 26,306        | 26,370        |
|                     | <u>50,615</u> | <u>64,160</u> |

**(a) Impaired receivables**

The creation and release of the provision for impaired receivables is included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of receiving additional cash.

There are no impaired receivables for the Group or Parent and there were no receivables past due for the Group or Parent.

**(b) Interest rate risk**

Information about the Group's exposure to interest rate risk in relation to receivables is provided in note 2.

**(c) Fair value and credit risk**

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair values.

The maximum exposure to credit risk at the reporting date is their carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's receivables.

**10 NON-CURRENT ASSETS - TRADE AND OTHER RECEIVABLES**

|                            | <b>2011</b>    | <b>2010</b>    |
|----------------------------|----------------|----------------|
|                            | <b>\$</b>      | <b>\$</b>      |
| Tenement security deposits | 438,856        | 162,000        |
| Rental bonds               | 37,673         | 37,673         |
|                            | <u>476,529</u> | <u>199,673</u> |

**11 PROPERTY, PLANT AND EQUIPMENT**

|                                     |                |                |
|-------------------------------------|----------------|----------------|
| Plant and equipment                 |                |                |
| at cost                             | 435,766        | 219,094        |
| accumulated depreciation            | (136,238)      | (120,104)      |
|                                     | <u>299,528</u> | <u>98,990</u>  |
| Property                            |                |                |
| at cost                             | 417,036        | 417,036        |
| accumulated depreciation            | -              | -              |
|                                     | <u>417,036</u> | <u>417,036</u> |
| Motor Vehicles                      |                |                |
| at cost                             | 231,187        | 161,046        |
| accumulated depreciation            | (69,929)       | (85,120)       |
|                                     | <u>161,258</u> | <u>75,926</u>  |
| Total property, plant and equipment | <u>877,822</u> | <u>591,952</u> |

MALACHITE RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Movement in property, plant and equipment | Motor<br>Vehicles<br>\$ | Property,<br>Plant &<br>Equipment<br>\$ | Total<br>\$ |
|---|-------------------------|---|-------------|
| <b>Current Year</b>                       |                         |   |             |
| Balance at 01 July 2010                   | 75,926                  | 516,026                                 | 591,952     |
| Additions                                 | 126,423                 | 4,831                                   | 131,254     |
| Acquisition of subsidiary *               | -                       | 220,455                                 | 220,455     |
| Depreciation Expense                      | (13,352)                | (21,403)                                | (34,755)    |
| Disposals                                 | (27,739)                | (3,345)                                 | (31,084)    |
| Balance at 30 June 2011                   | 161,258                 | 716,564                                 | 877,822     |
| <b>Previous Year</b>                      |                         |   |             |
| Balance at 01 July 2009                   | 93,449                  | 495,960                                 | 589,409     |
| Additions                                 | -                       | 40,808                                  | 40,808      |
| Depreciation Expense                      | (17,523)                | (20,742)                                | (38,265)    |
| Disposals                                 | -                       | -                                       | -           |
| Balance at 30 June 2010                   | 75,926                  | 516,026                                 | 591,952     |

\* Refer note 24 Business Combination.

12 EXPLORATION AND EVALUATION EXPENDITURE

|  | 2011<br>\$ | 2010<br>\$  |
|--|------------|-------------|
| Costs carried forward in respect of areas of interest in exploration and evaluation phases | 36,007,831 | 13,201,814  |
| Movement for year  |            |             |
| Balance at beginning of year   | 13,201,814 | 14,212,610  |
| Expenditure during year *  | 22,948,425 | 1,941,145   |
| Amounts written off  | (142,408)  | (2,951,941) |
| Balance at end of year   | 36,007,831 | 13,201,814  |

\* During the year the group acquired the Lorena gold project with the exploration and evaluation of \$21,236,970. Refer note 24.

13 CURRENT LIABILITIES

|                                 | 2011<br>\$ | 2010<br>\$ |
|---------------------------------|------------|------------|
| <b>Trade and other payables</b> |            |            |
| Trade creditors                 | 179,149    | 241,326    |
| Other creditors                 | 184,449    | 152,984    |
| Employee entitlements           | 129,041    | 209,812    |
|                                 | 492,639    | 604,122    |



MALACHITE RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| 14 BORROWINGS                       | 2011<br>\$            | 2010<br>\$              |
|-------------------------------------|-----------------------|-------------------------|
| <b>Current</b>                      |                       |                         |
| Unsecured Convertible Note (a)      | -                     | 1,000,000               |
| Secured loan                        | 125,000               | -                       |
| Unsecured Loan                      | 610,500               | -                       |
| Hire purchase liabilities           | 25,693                | -                       |
| <b>Total current borrowings</b>     | <u>761,193</u>        | <u>1,000,000</u>        |
| <b>Non Current</b>                  |                       |                         |
| Hire purchase liability             | 73,451                | -                       |
| <b>Total non current borrowings</b> | <u>73,451</u>         | <u>-</u>                |
| <b>Total borrowings</b>             | <u><u>834,644</u></u> | <u><u>1,000,000</u></u> |

(a) Represents 1 Unsecured Convertible Note with a face value of \$1,000,000 which has been repaid during the financial year by the issue of shares.

| 15 CONTRIBUTED EQUITY   | 2011              | 2010              |
|---|-------------------|-------------------|
| 556,609,356 fully paid ordinary shares<br>(2010: 176,196,439) | 51,087,741        | 27,474,702        |
|   | <u>51,087,741</u> | <u>27,474,702</u> |

Fully paid ordinary shares carry one vote per share and carry the right to dividends and have no par value.

(a) Movement in ordinary share capital

| Date                | Details   | Number of<br>shares              | Issue price<br>\$ | \$                              |
|---------------------|---|----------------------------------|-------------------|---------------------------------|
| <b>1 July 2009</b>  | <b>Opening balance</b>  | <b>140,718,663</b>               |                   | <b>25,099,153</b>               |
|                     | Share purchase plan   | 16,969,006                       | 0.0550            | 933,295                         |
|                     | Share placement agreements  | 18,508,770                       | 0.0855            | 1,582,500                       |
|                     | Transaction costs relating to share issues  |                                  |                   | (140,246)                       |
| <b>30 June 2010</b> |   | <u><b>176,196,439</b></u>        |                   | <u><b>27,474,702</b></u>        |
| 22-Nov-10           | Convertible Note interest payable in shares to Nanyang  | 666,667                          | 0.0750            | 50,000                          |
| 20-Dec-10           | Share purchase plan   | 4,575,000                        | 0.0750            | 343,125                         |
| 10-Feb-11           | Consideration for acquisition of Volga Elderberry Pty Ltd (VEPL)- Shares, Class A and Class B Options * | 350,000,000                      | 0.0615            | 21,529,226                      |
| 4-Mar-11            | Share placement   | 6,900,000                        | 0.0750            | 517,500                         |
| 16-Mar-11           | Share placement   | 1,865,000                        | 0.0750            | 139,875                         |
| 17-May-11           | Convertible note principal and interest payable in shares to Nanyang                                    | 16,406,250                       | 0.0640            | 1,050,000                       |
|                     | Transaction costs relating to share issues  |                                  |                   | (16,687)                        |
| <b>30 June 2011</b> | <b>Balance at end of year</b>   | <u><u><b>556,609,356</b></u></u> |                   | <u><u><b>51,087,741</b></u></u> |

\* Class A and B Options

As part of the consideration for the purchase of all of the issued shares in VEPL, the Company has granted 14 Class A Option and 14 Class B Option to the Sellers of VEPL. The purpose of these options is to allow the Sellers a right to avoid dilution that could occur in the future as a result of the issue of shares by the Company to Nanyang pursuant to the terms of a \$1 million convertible note held by Nanyang, or due to the exercise of options held by Nanyang.

Class A Options expired on 20 June 2011 and were not exercised.

Class B Options entitle the holder to subscribe for a specified number of shares calculated in accordance with a specific formula which is based on the number of Nanyang shares in the capital of the Company issued to Nanyang or any other person pursuant to the 7,500,000 options issued to Nanyang. The key terms of Class B Options are as follows:

- . expire on 30 November 2012;
- . exercisable progressively upon the exercise of the Nanyang Options to the extent of such exercise; and
- . the exercise price is a price per share equal to the exercise price applicable to the relevant Nanyang Options.

MALACHITE RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

15 CONTRIBUTED EQUITY (CONTINUED)

(b) Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to maintain an optimal capital structure to reduce the cost of capital. The Group monitors capital on a regular basis in order to achieve the objectives. The Group's strategy has remained unchanged from the prior year.

16 OPTIONS

| Expiry Date     | Exercise Price | Number on issue<br>1 July 2010 | Granted during year | Transferred during year | Expired during year | Exercised during year | Number on issue<br>30 June 2011 |
|-----------------|----------------|--------------------------------|---------------------|-------------------------|---------------------|-----------------------|---------------------------------|
| <b>Listed</b>   |                |                                |                     |                         |                     |                       |                                 |
|                 |                | -                              | -                   | -                       | -                   | -                     | -                               |
|                 |                | -                              | -                   | -                       | -                   | -                     | -                               |
| <b>Unlisted</b> |                |                                |                     |                         |                     |                       |                                 |
| 30.11.2011      | 0.300          | 450,000                        | -                   | -                       | (210,000)           | -                     | 240,000                         |
| 30.11.2011      | 0.300          | 3,000,000                      | -                   | -                       | (500,000)           | -                     | 2,500,000                       |
| 22.11.2012      | 0.431          | 5,900,000                      | -                   | -                       | (600,000)           | -                     | 5,300,000                       |
| 22.11.2012      | 0.431          | 1,310,000                      | -                   | -                       | (150,000)           | -                     | 1,160,000                       |
| 30.06.2010      | 0.250          | 1,000,000                      | -                   | -                       | (1,000,000)         | -                     | -                               |
| 25.11.2013      | 0.200          | 5,900,000                      | -                   | -                       | (500,000)           | -                     | 5,400,000                       |
| 25.11.2013      | 0.200          | 1,700,000                      | -                   | -                       | (350,000)           | -                     | 1,350,000                       |
| 29.10.2012      | 0.111          | 7,500,000                      | -                   | -                       | -                   | -                     | 7,500,000                       |
| 20.06.2011      | (a)            | -                              | 14                  | -                       | (14)                | -                     | -                               |
| 30.11.2012      | 0.111          | -                              | 14                  | -                       | -                   | -                     | 14                              |
| 28.02.2013      | 0.100          | -                              | 8,765,000           | -                       | -                   | -                     | 8,765,000                       |
| 21.04.2013      | 0.100          | -                              | 2,000,000           | -                       | -                   | -                     | 2,000,000                       |
|                 |                | 26,760,000                     | 10,765,028          | -                       | (3,310,014)         | -                     | 34,215,014                      |

(a) The exercise price per share for the A Options is equal to the issue price of the shares in the Company issued in satisfaction of the preceding payment of interest owing under the Company the Nanyang Convertible Note or the conversion price of shares in the Company issued to repay (in whole or in part) the Nanyang Convertible Note.

Refer terms and conditions for these options in note 15.

17 RESERVES

Share based payments reserve

|                              | 2011<br>\$ | 2010<br>\$ |
|------------------------------|------------|------------|
| Balance at beginning of year | 1,224,313  | 1,039,955  |
| Option Expenses              | 101,721    | 184,358    |
| Balance at end of year       | 1,326,034  | 1,224,313  |

The share based payments reserve is used to recognise the fair value of options issued.

18 ACCUMULATED LOSSES

|   |              |              |
|---|--------------|--------------|
| Accumulated losses at beginning of financial year | (14,441,120) | (10,323,007) |
| Net loss for year                                 | (1,722,663)  | (4,118,113)  |
| Accumulated losses at end of financial year       | (16,163,783) | (14,441,120) |

MALACHITE RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

19 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) **Directors**

The directors of Malachite Resources Limited during the year were:

|                      |                          |   |
|----------------------|--------------------------|---|
| Dr Garry G Lowder    | - Executive Chairman     |   |
| Mr Russell MD Meares | - Non-Executive Director |   |
| Mr Warren J Staude   | - Non-Executive Director | (resigned 28/02/11)                         |
| Mr Dennis M O'Neill  | - Non-Executive Director | (resigned 28/02/11)                         |
| Mr Roy M. Randall    | - Non-Executive Director |   |
| Mr James Dean        | - Non-Executive Director | (appointed 10/02/11)                        |
| Mr Joel Bidois       | - Non-Executive Director | (appointed 10/02/11)<br>(resigned 11/07/11) |

(b) **Other key management personnel**

Mr Geoffrey Hiller - Chief Executive Officer (appointed 21/03/11)

(c) **Key Management Personnel compensation**

|                              | 2011<br>\$     | 2010<br>\$     |
|------------------------------|----------------|----------------|
| Short-term employee benefits | 497,306        | 470,027        |
| Post-employment benefits     | 40,204         | 39,287         |
| Long-term benefits           | 53,700         | 131,513        |
| Share-based payments         | 84,904         | 147,566        |
|                              | <u>676,114</u> | <u>788,393</u> |

The company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections (a) - (c) of the remuneration report.

(d) **Loan from Key Management Personnel**

Loan from Key Management Personnel refer note 23.

(e) **Equity instrument disclosures relating to Key Management Personnel**

(i) Share holdings

The number of shares in the company held during the financial year by each director of Malachite Resources Limited and other key management personnel or the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

| Shares<br>2011  | Number<br>held<br>1 July 2010 | Purchased<br>during<br>year | Sold<br>during<br>year | Issued on<br>exercise of<br>options | Number<br>held<br>30 June 2011 |
|---|-------------------------------|-----------------------------|------------------------|-------------------------------------|--------------------------------|
| <b>Directors</b>  |                               |                             |                        |                                     |                                |
| Dr GG Lowder  | 6,981,244                     | 200,000                     | -                      | -                                   | 7,181,244                      |
| Mr RD Meares  | 1,040,417                     | 100,000                     | -                      | -                                   | 1,140,417                      |
| Mr D O'Neill<br>(resigned 28/02/11)                           | -                             | -                           | -                      | -                                   | -                              |
| Mr W Staude<br>(resigned 28/02/11)                            | 90,000                        | -                           | -                      | -                                   | 90,000                         |
| Mr RM Randall   | 2,331,753                     | 150,000                     | -                      | -                                   | 2,481,753                      |
| Mr James Dean<br>(appointed 10/02/11)                         | -                             | 7,936,508                   | -                      | -                                   | 7,936,508                      |
| Mr Joel Bidois<br>(appointed 10/02/11)<br>(resigned 11/07/11) | -                             | 82,781,905                  | -                      | -                                   | 82,781,905                     |
| <b>Other key management personnel</b>                         |                               |                             |                        |                                     |                                |
| Mr Geoff Hiller<br>(appointed 21/03/11)                       | -                             | 50,000                      | -                      | -                                   | 50,000                         |
|   | Number<br>held<br>1 July 2009 | Purchased<br>during<br>year | Sold<br>during<br>year | Issued on<br>exercise of<br>options | Number<br>held<br>30 June 2010 |
| <b>2010</b>   |                               |                             |                        |                                     |                                |
| Dr GG Lowder  | 5,771,244                     | 1,210,000                   | -                      | -                                   | 6,981,244                      |
| Mr RD Meares  | 940,417                       | 100,000                     | -                      | -                                   | 1,040,417                      |
| Mr D O'Neill  | -                             | -                           | -                      | -                                   | -                              |
| Mr W Staude   | 90,000                        | -                           | -                      | -                                   | 90,000                         |
| Mr RM Randall   | 2,231,753                     | 100,000                     | -                      | -                                   | 2,331,753                      |

MALACHITE RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

19 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(d) Equity instrument disclosures relating to Key Management Personnel (continued)

(ii) Option holdings

The number of options over ordinary shares in the company held during the financial year by directors of Malachite Resources Limited and the other key management personnel of the Group, including their personally related parties, are set out below.

| Options | Number held<br>1 July 2010 | Converted from unlisted during year | Acquired during year | Lapsed during year | Exercised during year | Number held<br>30 June 2011 | Vested and exercisable |
|---------|----------------------------|-------------------------------------|----------------------|--------------------|-----------------------|-----------------------------|------------------------|
|---------|----------------------------|-------------------------------------|----------------------|--------------------|-----------------------|-----------------------------|------------------------|

Listed

|                                      |   |   |   |   |   |   |   |
|--------------------------------------|---|---|---|---|---|---|---|
| Dr GG Lowder                         | - | - | - | - | - | - | - |
| Mr RD Meares                         | - | - | - | - | - | - | - |
| Mr D O'Neill (resigned 28/02/11)     | - | - | - | - | - | - | - |
| Mr W Staude (resigned 28/02/11)      | - | - | - | - | - | - | - |
| Mr RM Randall                        | - | - | - | - | - | - | - |
| Mr Geoff Hiller (appointed 21/03/11) | - | - | - | - | - | - | - |

Unlisted

|                                      |           |   |           |           |   |           |           |
|--------------------------------------|-----------|---|-----------|-----------|---|-----------|-----------|
| Dr GG Lowder                         | 7,250,000 | - | -         | -         | - | 7,250,000 | 2,240,000 |
| Mr RD Meares                         | 5,000,000 | - | -         | -         | - | 5,000,000 | 1,660,000 |
| Mr D O'Neill (resigned 28/02/11)     | 800,000   | - | -         | (800,000) | - | -         | -         |
| Mr W Staude (resigned 28/02/11)      | 800,000   | - | -         | (800,000) | - | -         | -         |
| Mr RM Randall                        | 950,000   | - | -         | -         | - | 950,000   | 382,000   |
| Mr Geoff Hiller (appointed 21/03/11) | -         | - | 2,000,000 | -         | - | 2,000,000 | -         |

Options

| Options | Number held<br>1 July 2009 | Converted from unlisted during year | Acquired during year | Lapsed during year | Exercised during year | Number held<br>30 June 2010 | Vested and exercisable |
|---------|----------------------------|-------------------------------------|----------------------|--------------------|-----------------------|-----------------------------|------------------------|
|---------|----------------------------|-------------------------------------|----------------------|--------------------|-----------------------|-----------------------------|------------------------|

Listed

|               |   |   |   |   |   |   |   |
|---------------|---|---|---|---|---|---|---|
| Dr GG Lowder  | - | - | - | - | - | - | - |
| Mr RD Meares  | - | - | - | - | - | - | - |
| Mr D O'Neill  | - | - | - | - | - | - | - |
| Mr W Staude   | - | - | - | - | - | - | - |
| Mr RM Randall | - | - | - | - | - | - | - |

Unlisted

|               |           |   |   |   |   |           |           |
|---------------|-----------|---|---|---|---|-----------|-----------|
| Dr GG Lowder  | 7,250,000 | - | - | - | - | 7,250,000 | 1,250,000 |
| Mr RD Meares  | 5,000,000 | - | - | - | - | 5,000,000 | 1,000,000 |
| Mr D O'Neill  | 800,000   | - | - | - | - | 800,000   | 250,000   |
| Mr W Staude   | 800,000   | - | - | - | - | 800,000   | 250,000   |
| Mr RM Randall | 950,000   | - | - | - | - | 950,000   | 250,000   |

20 AUDITORS' REMUNERATION

|  | 2011<br>\$ | 2010<br>\$ |
|--|------------|------------|
| Remuneration of the auditor of the consolidated entity for: Audit services                 |            |            |
| Fees paid to PricewaterhouseCoopers Australian firm  |            |            |
| Audit and review of financial reports and other audit work under the Corporations Act 2001 | 53,462     | 41,000     |

21 CONTINGENT LIABILITIES

There are no contingent liabilities (2010:nil).

MALACHITE RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

22 COMMITMENTS FOR EXPENDITURE

(a) **Capital Expenditure Commitments**

There are no capital commitments at the end of the financial year (2010:nil).

(b) **Lease Commitments**

Operating leases relate to office facilities. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

|  | 2011<br>\$     | 2010<br>\$     |
|--|----------------|----------------|
| <b>Operating leases</b>                      |                |                |
| Not later than one year                      | 149,652        | 136,614        |
| Later than 1 year but not later than 5 years | 438,410        | 392,577        |
| Later than 5 years                           | -              | -              |
|  | <u>588,062</u> | <u>529,191</u> |

(c) **Tenement Commitments**

**Tenement Expenditure required under tenement licence**

|  |                |                |
|--|----------------|----------------|
| Not later than one year                      | 258,000        | 438,500        |
| Later than 1 year but not later than 2 years | 282,000        | 505,500        |
| Later than 2 years                           | -              | -              |
|  | <u>540,000</u> | <u>944,000</u> |

(d) **Hire Purchase Commitments**

The Group purchased two motor vehicles with a carrying amount of \$126,423 (2010 - nil) under hire purchase with a loan term three years.

|  |                |          |
|--|----------------|----------|
| Not later than one year                      | 26,553         | -        |
| Later than 1 year but not later than 5 years | 88,681         | -        |
|  | <u>115,234</u> | <u>-</u> |
| Future finance charges                       | (16,090)       | -        |
|  | <u>99,144</u>  | <u>-</u> |
| Recognised as liability                      | -              | -        |

23 RELATED PARTY TRANSACTIONS

(a) **Parent entity**

The parent entity within the group is Malachite Resources Limited. Volga Elderberry became a wholly owned subsidiary of Malachite Resources Limited on 10 February 2011.

(b) **Key management personnel**

Disclosures relating to key management personnel are set out in note 19.

(c) **Loans from related parties**

|  | 2011<br>\$     | 2010<br>\$ |
|--|----------------|------------|
| <i>Loans from directors and key management personnel</i>   |                |            |
| <b>Unsecured</b>   |                |            |
| Dr GG Lowder   | 200,000        | -          |
| Mr RM Randall  | 10,500         | -          |
| Mr James Dean (appointed 10/02/11)                         | 100,000        | -          |
| Mr Joel Bidois (appointed 10/02/11)<br>(resigned 11/07/11) | 300,000        | -          |
| <b>Secured</b>   |                |            |
| Mr Geoff Hiller (appointed 21/03/11)                       | 125,000        | -          |
|  | <u>735,500</u> | <u>-</u>   |

MALACHITE RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

23 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) **Terms and conditions**

**Unsecured loans:**

Term: Repayable in full 31 December 2011.

Interest Rate: nil.

**Secured loan:**

Term: Repayable in full together with accrued interest on 30 November 2011.

Interest Rate: 9.0% per annum payable on repayment of the principal amount.

Security: Registered First Mortgage over the Jadree property.

Directors (including a former Director, Mr Joel Bidois) and Mr Geoff Hiller, Chief Executive Officer (or their associates) have advanced loans to Malachite in the last six months. These individuals (or their associates), with the exception of Mr Geoff Hiller, have given the Company firm commitments that they (or their associated entities) will subscribe for all of their Entitlements by applying the loan amounts owing to each of them to subscribe for New Shares and New Options pursuant to the current Rights Issue. (refer note 27). Where the loan amounts exceed their respective Entitlements, each of those individuals (or associated entities) have entered into a priority sub-underwriting agreement with the Company confirming that they will take up such number of Shortfall Securities (if available) as is equal to the value of the balance of their loan.

Mr Geoff Hiller has entered into a priority sub-underwriting agreement with the Company confirming that he will take up such number of Shortfall Securities (if available) as is equal to the value of the balance of his loan plus an additional sub-underwriting amount of \$75,000.

With the exception of Mr Geoff Hiller, none of the individuals will receive Underwriter Options in consideration for agreeing to act as sub-underwriters in respect of the Offer.

24 BUSINESS COMBINATION

(a) **Summary of acquisition**

A Share Purchase Agreement was signed on 29 September 2010. This agreement provided that, at completion, all of the issued shares of Volga Elderberry Pty. Limited, owner of mining lease ML7147, and associated assets, including several tenement applications, and collectively comprising the Lorena Gold Project, would be acquired by the Group. The consideration for this purchase was the issue to the vendors of 350,000,000 fully paid ordinary shares, 14 Class A Options and 14 Class B Options in Malachite Resources Limited. Completion took place on 10 February 2011 and Volga Elderberry became a wholly owned subsidiary of Malachite Resources Limited.

Details of the purchase consideration and net assets acquired are as follows:

|                                      |                   |
|--------------------------------------|-------------------|
| Purchase consideration:              | \$                |
| Issue of 350,000,000 shares @6 cents | 21,000,000        |
| Issue of 14 Class A Options          | 255,100           |
| Issue of 14 Class B Options          | 274,126           |
| Total purchase consideration:        | <u>21,529,226</u> |

The assets and liabilities recognised as a result of the acquisition are as follows:

|  |                   |
|--|-------------------|
| Plant and equipment                    | 220,455           |
| Tenement security deposits             | 71,801            |
| Exploration and evaluation expenditure | 21,236,970        |
| Deferred tax asset                     | 249,223           |
| Deferred tax liability                 | (249,223)         |
| Net assets acquired                    | <u>21,529,226</u> |

There were no acquisitions in the year ending 30 June 2010.

*Acquisition-related costs*

Acquisition-related costs of \$164,831 are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

**MALACHITE RESOURCES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**25 INVESTMENT IN CONTROLLED ENTITY**

| Name of controlled entity                                     | Country of incorporation | Class of shares | Ownership<br>interest<br>2011<br>% | Ownership<br>interest<br>2010<br>% |
|---|--------------------------|-----------------|------------------------------------|------------------------------------|
| Conrad Silver Mines Pty Ltd (formerly Elsmore Mining Pty Ltd) | Australia                | Ordinary        | 100                                | 100                                |
| Volga Elderberry Pty Ltd                                      | Australia                | Ordinary        | 100                                | -                                  |

**26 INTERESTS IN JOINT VENTURES**

Rivertree: The consolidated entity holds a 10% participating interest in the Rivertree joint venture and is free carried to feasibility. Interests are shown in the balance sheet as Non-current assets.

|   | 2011<br>\$ | 2010<br>\$ |
|---|------------|------------|
| Interests were shown in the balance sheet as Non-current assets |            |            |
| Exploration and evaluation expenditure (Rivertree)              | -          | 4,241      |
| Total non-current assets  | -          | 4,241      |

**27 EVENTS SUBSEQUENT TO REPORTING DATE**

Since the end of the Financial Year the following matters have arisen which may significantly affect the operations of the Group:

- The Group identified the Copperhead Prospect which contains relatively high gold grades at the Lorena Gold Project;
- The Group issued 10 Convertible Notes to 2 Note Holders with a total face value of \$1,000,000. Each of these Convertible Notes are convertible, at the election of the Note Holder prior to maturity, into fully paid ordinary shares of the Group at the lesser of \$0.05 or a 20% discount to the 30 day VWAP at the time of conversion (which may not occur until after 6 months) or are redeemable in cash upon maturity. Interest is payable on the notes at a rate of 12% per annum. The notes mature after 12 months from the issue date. Pursuant to the Convertible Note Subscription Agreement each Note Holder is entitled to nominate a person for appointment to the Board of Directors of the Group. In addition the Group is required to enter into good faith discussions with the Note Holders to invest in or acquire one or more of the projects of the Group (with the exception of the Lorena Gold Project);
- Drilling resumed at the Lorena Gold Project aimed at extending the existing mineral gold resources;
- The Group announced a fully underwritten renounceable Rights Issue to raise approximately \$3,500,000. Shareholders will be entitled to apply for new shares under the Rights Issue at 2.5 cents on the basis of 1 new share for every 4 shares held and will also receive 1 new option (exercisable at 5.0 cents at any time prior to 15 June 2012) for every new share applied for pursuant to the Rights Issue. The Rights Issue closes on 6 October 2011 and is underwritten by Patersons Securities Limited. A number of Directors, former Directors and the CEO of the Group have loaned funds to the Group in the amount of \$745,190 (advanced prior to the end of the Financial Year) and have committed to convert their loans into equity or to apply for shortfall pursuant to the Rights Issue such that these loans will be extinguished in the same process.

Except as described above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

**MALACHITE RESOURCES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**28 NOTES TO STATEMENTS OF CASH FLOWS**

**(a) Reconciliation of cash**

For the purposes of the statements of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled in the related items in the balance sheet as follows:-

|             | <b>2011</b> | <b>2010</b> |
|-------------|-------------|-------------|
|             | <b>\$</b>   | <b>\$</b>   |
| <b>Cash</b> | 164,478     | 1,804,418   |
|             | 164,478     | 1,804,418   |

**(b) Non-cash financing and investing activities**

|   |            |   |
|---|------------|---|
| Ordinary shares and options issued for acquisition cost                                     | 21,529,226 | - |
| Shares issued to repay Convertible note principal and interest payable in shares to Nanyang | 1,100,000  | - |
|   | 22,629,226 | - |

**(c) Reconciliation of operating profit after income tax to net cash flows from operating activities**

|  |              |             |
|--|--------------|-------------|
| Operating loss after income tax                      | (1,722,663)  | (4,118,113) |
| <b>Non cash</b>                                      |              |             |
| Depreciation   | 34,755       | 38,265      |
| Employee share-based payments                        | 101,721      | 184,358     |
| Exploration expenditure written off                  | 142,408      | 2,951,941   |
| Interest on Convertible Notes                        | 100,000      | -           |
| Net (profit) loss on sale of assets                  | 4,084        | -           |
| Finance fees   | 1,295        | -           |
| Purchase of Lorena asset                             | 21,236,970   | -           |
|  | 19,898,570   | (943,549)   |
| <b>Changes in assets and liabilities</b>             |              |             |
| Decrease/(Increase) in receivables                   | 13,481       | (21,663)    |
| Decrease/(Increase) in prepayments                   | 64           | 859         |
| (Increase) in exploration and evaluation expenditure | (22,948,425) | (1,941,145) |
| Increase/(decrease) in employee entitlements         | (80,771)     | 111,217     |
| Increase/(decrease) in payables                      | (30,712)     | 310,980     |
|  | (3,147,793)  | (2,483,301) |

**29 EARNINGS/(LOSS) PER SHARE**

|  |             |             |
|--|-------------|-------------|
| Basic and diluted earnings/(loss) per share (cents per share)  | (0.54)      | (2.47)      |
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings/ (loss) per share | 319,043,685 | 166,704,963 |

The options outlined in Note 16 are considered potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.

MALACHITE RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

30 SHARE-BASED PAYMENTS

(a) Employee Option Plan

The Company operates an Employees and Contractors Option Plan ("Plan") which was most recently approved by shareholders at the Company's Annual General Meeting held 23 November 2010. The Plan is administered by the Board. Only eligible persons (and their associates) may be invited to participate in the Plan. Eligible persons include full time employees of the Company, permanent part-time employees, qualifying contractors and persons who may be a director, alternate director or company secretary of the Company or an entity in the Group. The Plan is designed to provide long term incentives for executives to deliver shareholder value. Under the Plan, participants are granted options which only vest if certain exploration outcomes are achieved or at the end of the vesting period.

Options are granted under the plan for no consideration. Options granted under the Plan carry no dividend or voting rights. Each option entitles the holder to subscribe for and be allotted one ordinary fully paid share in the capital of the Company. The exercise price is determined by the Directors at the time of issuing an invitation to participate in the Plan. Options granted under the Plan have been granted at a premium to the price at which the Company's shares were traded on the Australian Stock Exchange at the time of granting.

Set out below are summaries of options granted under the plan:

Consolidated entity - 2011

| Grant Date    | Expiry Date                     | Exercise Price | Balance at | Granted    | Exercised  | Expired or  | Balance at | Exercisable   |
|---------------|---------------------------------|----------------|------------|------------|------------|-------------|------------|---------------|
|               |                                 |                | start of   | during the | during the | forfeited   | end of the | at end of the |
|               |                                 |                | year       | year       | year       | during the  | year       | year          |
|               |                                 |                | Number     | Number     | Number     | year        | Number     | Number        |
| * 23 Nov 2006 | 30 Nov 2011                     | 0.300          | 3,450,000  | -          | -          | (710,000)   | 2,740,000  | 2,740,000     |
| 22 Nov 2007   | 22 Nov 2012                     | 0.431          | 5,900,000  | -          | -          | (600,000)   | 5,300,000  | -             |
| * 31 Jan 2008 | 22 Nov 2012                     | 0.431          | 1,310,000  | -          | -          | (150,000)   | 1,160,000  | -             |
| 25 Nov 2008   | 25 Nov 2013                     | 0.200          | 5,900,000  | -          | -          | (500,000)   | 5,400,000  | 3,600,000     |
| * 23 Dec 2008 | 25 Nov 2013                     | 0.200          | 1,700,000  | -          | -          | (350,000)   | 1,350,000  | 900,000       |
| 21 Mar 2011   | 21 April 2013                   | 0.100          | -          | 2,000,000  | -          | -           | 2,000,000  | -             |
| Total         |                                 |                | 18,260,000 | 2,000,000  | -          | (2,310,000) | 17,950,000 | 7,240,000     |
|               | Weighted average exercise price |                | \$0.31     | \$0.10     | \$0.00     | \$0.00      | \$0.29     |               |

MALACHITE RESOURCES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

30 SHARE-BASED PAYMENTS (CONTINUED)

Consolidated - 2010

| Grant Date                      | Expiry Date | Exercise Price | Balance at start of year | Granted during the year | Exercised during the year | Expired or forfeited during the year | Balance at end of the year | Exercisable at end of the year |
|---------------------------------|-------------|----------------|--------------------------|-------------------------|---------------------------|--------------------------------------|----------------------------|--------------------------------|
|                                 |             |                | Number                   | Number                  | Number                    | Number                               | Number                     | Number                         |
| * 23 Nov 2004                   | 23 Nov 2009 | 0.200          | 25,000                   | -                       | -                         | (25,000)                             | -                          | -                              |
| * 25 Nov 2005                   | 23 Nov 2009 | 0.200          | 50,000                   | -                       | -                         | (50,000)                             | -                          | -                              |
| * 24 Feb 2006                   | 23 Nov 2009 | 0.200          | 25,000                   | -                       | -                         | (25,000)                             | -                          | -                              |
| * 23 Nov 2006                   | 30 Nov 2011 | 0.300          | 3,450,000                | -                       | -                         | -                                    | 3,450,000                  | 2,740,000                      |
| 22 Nov 2007                     | 22 Nov 2012 | 0.431          | 5,900,000                | -                       | -                         | -                                    | 5,900,000                  | -                              |
| * 31 Jan 2008                   | 22 Nov 2012 | 0.431          | 1,310,000                | -                       | -                         | -                                    | 1,310,000                  | -                              |
| 25 Nov 2008                     | 25 Nov 2013 | 0.200          | 5,900,000                | -                       | -                         | -                                    | 5,900,000                  | 1,800,000                      |
| 23 Dec 2008                     | 25 Nov 2013 | 0.200          | 1,700,000                | -                       | -                         | -                                    | 1,700,000                  | 450,000                        |
| Total                           |             |                | 18,360,000               | -                       | -                         | (100,000)                            | 18,260,000                 | 4,990,000                      |
| Weighted average exercise price |             |                | \$0.31                   | \$0.000                 | \$0.00                    | \$0.31                               | \$0.31                     |                                |

\* Options issued to employees outside of key management personnel.

**Fair value of options granted**

The assessed fair value at grant date of options granted during the year ended 30 June 2011 were as follows: the options issued on 21/03/2011 were valued at .0224 cents per option (2009 : nil). The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2011 included:

- (a) options are granted for: no consideration and have a two year one month life vesting in two equal lots on the first and second anniversary of the grant date.
- (b) exercise price: \$0.10
- (c) grant date: 21/03/2011
- (d) expiry date: 21/04/2013
- (e) share price at grant date: \$0.07
- (f) expected price volatility of the company's shares: 80%
- (g) expected dividend yield: 0%
- (h) risk-free interest rate: 4.8%
- (i) probability rate: Tranche one 100%, Tranche two 75%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

**Expenses arising from share-based payment transactions**

Total expenses arising from share-based transactions recognised during the period as part of employee benefits expense were as follows:

|                               | 2011<br>\$     | 2010<br>\$     |
|-------------------------------|----------------|----------------|
| Options issued under the plan | 101,721        | 184,358        |
|                               | <u>101,721</u> | <u>184,358</u> |

**MALACHITE RESOURCES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**31 PARENT ENTITY FINANCIAL INFORMATION**

**(a) Summary financial information**

The individual financial statements for the parent entity show the following aggregate amounts:

|                                    | <b>2011</b>        | <b>2010</b>        |
|------------------------------------|--------------------|--------------------|
|                                    | <b>\$</b>          | <b>\$</b>          |
| <b>Balance sheet</b>               |                    |                    |
| Current assets                     | 215,093            | 1,868,578          |
| Non-current assets                 | 37,611,406         | 13,993,440         |
| <b>Total assets</b>                | <b>37,826,499</b>  | <b>15,862,018</b>  |
| Current liabilities                | 1,253,832          | 1,604,122          |
| Non-current liabilities            | 322,675            | 1                  |
| <b>Total liabilities</b>           | <b>1,576,507</b>   | <b>1,604,123</b>   |
| <b>Net Assets</b>                  | <b>36,249,992</b>  | <b>14,257,895</b>  |
| <b>Equity</b>                      |                    |                    |
| Contributed equity                 | 51,087,741         | 27,474,702         |
| Option reserve expense             | 1,326,034          | 1,224,313          |
| Accumulated losses                 | (16,163,783)       | (14,441,120)       |
| <b>Total equity</b>                | <b>36,249,992</b>  | <b>14,257,895</b>  |
| <b>Profit or loss for the year</b> | <b>(1,722,663)</b> | <b>(4,118,113)</b> |
| <b>Total comprehensive income</b>  | <b>(1,722,663)</b> | <b>(4,118,113)</b> |

**(b) Guarantees entered into by the parent entity**

The parent entity did not have any financial guarantees as at 30 June 2011 or 30 June 2010.

**(c) Contingent liability of parent entity**

The parent entity did not have any contingent liabilities as at 30 June 2011 or 30 June 2010

**MALACHITE RESOURCES LIMITED**

**DIRECTORS' DECLARATION**

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements ; and
  - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance, for the financial year ended on that date: and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable ; and
- (c) the audited remuneration disclosures of the directors report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *corporations Regulations 2001* ; and

Note 1 (a) confirms that the financial statements also comply with International Financial Reporting standards as issued by the International Acc Stds Board.

The directors have been given the declarations by the CEO and the Company's Accountant (who also carries out the function of Chief Financial Officer) required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors .

On behalf of the Directors



GG Lowder  
Executive Chairman

Sydney, 27 September 2011



## **Independent auditor's report to the members of Malachite Resources Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Malachite Resources Limited (the company), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Malachite Resources Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

#### *Auditor's opinion*

In our opinion:

- (a) the financial report of Malachite Resources Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

#### *Material uncertainty regarding continuation as a going concern*

Without qualifying our opinion, we draw attention to Note 1(b) in the financial report which indicates that the consolidated entity has experienced operating losses and negative cash flows during the year ended on 30 June 2011 and, as of that date, the consolidated entity's current liabilities exceeded its total assets by \$1,038,739. These conditions, along with other matters as set forth in Note 1(b), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

#### **Report on the Remuneration Report**

We have audited the remuneration report included in pages 7 to 10 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

#### *Auditor's opinion*

In our opinion, the remuneration report of Malachite Resources Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.



*Matters relating to the electronic presentation of the audited financial report*

This auditor's report relates to the financial report and remuneration report of Malachite Resources Limited (the company) for the year ended 30 June 2011 included on Malachite Resources Limited's web site. The company's directors are responsible for the integrity of the Malachite Resources Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'B Entwistle', written in a cursive style.

Brett Entwistle  
Partner

Sydney  
27 September 2011